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UNCLAS SECTION 01 OF 03 BANGUI 000104

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SUBJECT: 2009 CAR BUDGET ANALYSIS

11. (SBU) SUMMARY: The National Assembly of the Central African Republic adopted the 2009 national budget on February 2, 2009 during a special session. A final copy of the budget is now available to the public. The 2009 budget increased by 14.2 percent compared to 2008. The CARG resources are estimated at USD 334.9 million. The total expenditures are estimated at USD 362.1 million with an estimated deficit of USD 27.3 million. This budget, like in 2008, is built to take into account the Central African Government's Poverty Reduction Strategy Document priorities. Post believes its assumptions to be unrealistic considering the global financial crisis and the internal economic weaknesses of the CAR itself. END SUMMARY.

12. (SBU) 2009 budget's assumptions and general trends - Economic prospects for CAR will depend on the country's stability and the recovery of some key economic sectors that have been disrupted by the various mutinies, coup attempts and rebellions that the CAR has faced over last ten years. The Ministry of Economy and Planning estimated the country's GDP for 2009 at USD 1.9 billion and its economic growth at 3.9 percent. Post believes these estimates to be exaggerated when taken in the context of the international economic and financial crisis as well as the CAR's own internal political, social and economic crises.

13. (SBU) Overall, the 2009 budget is built to sustain the implementation of the Poverty Reduction Strategy Document. The Central African Government's assumptions are:

- The 2009 budget implementation will take place in a context of restored security and peace throughout the country as result of the Inclusive Political Dialogue. Unfortunately, the Inclusive Political Dialogue has not yet resulted in peace and stability and if anything, the rebellions appear to be once again increasing.
- An effective return of the foreign direct investment especially in the sectors of mining, forestry and construction works - difficult to foresee considering global conditions.
- The reinforcement of relationships with international partners, especially with World Bank and IMF through the reaching of the Initiative for Heavily Indebted Poor Countries decision point. (NOTE: in discussion with Post, the World Bank and the IMF have been cautiously optimistic with the performance of the Central African Ministry of Finance and Budget.)
- This budget was built to promote the fight against poverty as well as the strengthening of economic growth through the mobilization of additional resources in the framework of the Poverty Reduction Strategy Document's (PRSD). Its implementation gives priorities to key development sectors such as the building/rebuilding of infrastructure, farming and fisheries among others.

14. (U) On the public finance management side, the CARG intends to pursue some stabilization measures through:

- Improvement in tax collection by various services of the Ministry of Finance and Budget.
- Priority given to the fight against poverty as stated in the PRSD.

14. (U) The CARG expects its internal resource mobilization efforts to be complemented by a significant external resources disbursement within the framework of the Poverty Reduction and Growth Facility Program supported by IMF. This should amount to USD 20.2 million of committed resources.

15. (U) On the expense side, the 2009 budget increased sharply, by 20 percent, compared to 2008. Overall, budget expenses related to the fight against poverty amount to USD 63.6 million. Out of this amount USD 54.2 million are earmarked for investment expenses covering the government following priorities:

- Restoration of security, peace consolidation and conflict prevention.
- Promotion of good governance and state of law, targeting corruption in particular.
- Rebuilding and diversification of the economy by promoting the country's exploitation of its various natural resources in agriculture, tourism and mining.
- Promotion of the human resources by improving education and health services provided by the government.

16. (U) The 2009 budget details are as follows in USD million

| | 2008 budget | 2009 budget |
|--------------------|-------------|-------------|
| Percent Change | | |
| Total resources | 269.37 | 334.88 |
| 24.3 | | |
| Domestic resources | 194.33 | 221.96 |

BANGUI 00000104 002 OF 003

| | | |
|----------------------|--------|--------|
| 14.2 | | |
| Budgetary assistance | 12.10 | 33.96 |
| 180.6 | | |
| External resources | 62.93 | 78.96 |
| 25.2 | | |
| Total expenses | 301.83 | 362.14 |
| 20.0 | | |
| Operational expenses | 171.30 | 197.41 |
| 15.2 | | |
| Total Investment | 85.89 | 106.58 |
| 24.1 | | |
| Government | 22.96 | 27.63 |
| 20.3 | | |
| Donors | 62.93 | 78.95 |
| 25.4 | | |
| Debt Service | 44.63 | 58.14 |
| 30.3 | | |
| Deficit | 32.55 | 27.25 |
| (19.4) | | |

17. (U) Budget resources: As shown by the above table, the total 2009 CARG budget resources are estimated at USD 334.9 million, an increase of 24.3 percent year over year. The domestic resources are estimated at USD 222.0 million, an increase of 14.2 percent year over year mainly due to new measures including the restoration of the full value added tax affecting imported construction materials such as cement and metal sheet. As in 2008, significant tax exemption beneficiary's number decreased (In 2008, many NGOs and churches involved in development activities lost substantial tax exemption for their equipment purchases). As a result, an increase of 14.2 percent in the domestic resources can be noted. An expected increase of 25.4 percent of external resources compared to 2008 will support public investment in priority sectors including infrastructure, security, health and education. With a 180 percent increase, budgetary assistance amounted to USD 34.0 million. Budgetary assistance comes from France, China and European Union.

18. (U) Budget expenditures: The total estimated 2009 budget expenditures are USD 362.1 million, an increase of 20 percent year over year. The major expenditure rubrics are as follows:

- Wage bill: The bill is estimated at USD 80 million, which is an increase of 6.7 percent, mainly due to the slight increase in

the number of recruited civil servants in the education, health and security sectors. The general increase of civil servants' salaries in the 2009 budget contributed to this increase as well.

- Goods and Services: Goods and services are estimated at USD 80 million, which is an increase of 26.3 percent compared to 2008 budget. This substantial increase is attributable to resources devoted to the payment of Government's bills for telephone, electricity and water consumption as well as payment of arrears for previous years.

- Investment budget: Total investment expenses are estimated at USD 106.6 million, against USD 85.8 million in 2008, representing an increase of 24.1 percent.

- Internal resources: Internal resources devoted to investment are estimated at USD 27.6 million up from USD 23.0 million in 2008, an increase of 20.3 percent.

- External resources: External resources were USD 79.0 million, as increase of 25.4 percent compared to 2008. This increase is due to the funding of development projects in energy, waste disposal, communication, education and health sectors.

- In general, the related expenses in the ``fight against poverty'' programs are estimated at USD 63.6 million, including USD 54.2 million in related investment expenses.

¶9. (U) Debt Service

The debt service is estimated at USD 78.0 million. The breakdown is as follows:

- Internal debts: USD 28.2 million

- External debts: USD 49.8 million

¶10. (U) Deficit : The 2009 deficit is estimated at USD 27.2 million, representing 1.4 percent of the GDP, as opposed to 1.8 percent in 2008. The Central African Government plans to fund this deficit through the mobilization of internal as well as external resources in the form of grants, loans, budgetary support and/or debt cancellation.

¶11. (SBU) COMMENT: On the positive side, the prospects for external resources to be mobilized in the framework of the Poverty Reduction Strategy are possible. It should also be note that the CARG recently reached the goals of the initiative for

BANGUI 00000104 003 OF 003

heavily indebted countries, meaning that a substantial portion of the country's international debt service may be reduced. Yet, Post still believes this budget has many more problems than solutions:

- It is too optimistic in its assumption of the revival of economic activities throughout the country. The December 2008 inclusive political dialogue was supposed to bring peace and disarm rebel groups, but it has not reached these objectives. Indeed, the CAR has seen a resumption of violence since its signing.

- In terms of budgeted tax collection, although some organizational efforts are notable, the closure of several companies operating in forestry and mining sectors will likely limit the level of potential tax receipts collected.

- No money budgeted for the 2010 elections.

As noted above, the international financial crisis, coupled with the economic crisis affecting the Central African export markets, and the lack of stability in the country, will hinder greatly the optimistic assumptions of the 2009 budget. END

COMMENT

COOK